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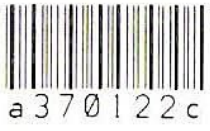

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"War is implacable; it puts the question with merciless sharpness; either perish or overtake the advanced countries and surpass them also economically . . . either full steam ahead or perish. This is how history has put the question . . .

— LENIN

Profit Motive or Master Plan

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Profit Motive or Master Plan

IN THE PRECEDING pamphlet our consumer-directed economy was compared with the State-controlled system of the Soviet Union. We saw how our system responds to the ever-changing desires of free people in determining what to produce and how the Soviet system produces to meet Communist goals—mainly military strength.

A second basic question that arises in both the Soviet Union and the United States is *How* to Produce?

A private firm in the United States or Soviet State planners may easily reach a decision to produce shoes. Subsequent decisions may be more difficult. What firms should produce them? How much, and what types of, machinery will be required? How many workers, with what skills, will be needed? Where should leather be obtained? Should the firm buy hides that have been tanned or install its own tanneries? Should it make shoelaces or purchase them?

An infinite variety of such decisions is required in the production process. We produce not just shoes, but other apparel, food, shelter—*indeed, some 8 to 10 million different items!* How do we handle the production of such a tremendous variety? How does the Soviet Union produce far fewer types?

The production process is defined in economic terms as the combining of manpower, management skills, land, plant and tools, and raw materials into useful goods and services.

A nation's production depends, therefore, both on the *availability* of these things and on the *efficiency* with which they are combined.

We Americans are inclined to take our unparalleled production largely for granted. Most of us recognize that the ability of our economy to solve the question "How to Produce" is a primary reason for our high scale of living and our stature in the world today. In turn, the knowledge that the Soviet

Union could produce an atom-bomb and a "sputnik" disturbed us and other peoples in the free world because it demonstrated that Communist threats would be supported by increasing production and performance.

Khrushchev has challenged us to a production race. "The growth of industrial and agricultural production is the battering ram with which we shall smash the capitalistic system," he boasts. "To catch up and surpass the United States" is an incessant propaganda slogan.

"Evidently," says one observer, "Khrushchev would like nothing better than to turn the entire international arena into a gigantic racetrack on which all contestants must accept his ground rules, assume his handicaps, and compete for his goals." [1]

To say that Khrushchev should not be permitted to set the rules for the contest, however, is not the same as saying that production is unimportant.

We need large quantities of efficiently produced goods to meet pressing demands for defense, for foreign aid commitments, and for a steadily rising standard of living.

Resources Available to Both Countries

Both the United States and Russia are rich in natural resources.

Both have large labor forces. As a result of war losses and lower birthrates, the Russian population has not grown as fast as our population since 1939. Compared to the more than 215 million people in the Soviet Union, over 180 million people now live in the United States.

It has been estimated that the Soviet population of "working age" (15 to 59) totaled about 131 million in 1959, 57 million men and 74 million women. The population in the United States in this age group totaled about 99 million, about equally divided between men and women.

Despite the more than 30-million difference in the working age population, it is estimated that the *industrial working force* is roughly comparable.

Basically, this stems from the fact that a far larger proportion of the working force is engaged in agriculture in the Soviet

Union than in the United States. About one-half of the Russian population—compared to one-tenth in the United States—is dependent on agriculture for a livelihood.

Offsetting to some extent the number of workers engaged in agriculture is the much higher percentage of Russian women who work in industry. The Bureau of the Census estimated in 1957 that women composed 53 percent of the Soviet labor force whereas in the United States 32 percent of the "experienced civilian labor force" consisted of women. Moreover, women in Russia stand shoulder-to-shoulder with men in doing hard tasks. A striking example of this is furnished in the construction industry. Out of every 100 construction workers in the Soviet Union, approximately 30 are women. In the United States, only three out of 100 are women.

In addition, a much higher proportion of young people is employed in the Soviet Union than in the United States.

Both countries now possess experienced managerial talent. Economist David Granick has pointed out:

> The Red executive has come far since the days of the Revolution. Today he is a college-educated engineer with a sound technical and administrative background, and he bears little resemblance to the flamboyant party director of the early days whose credentials were years in Tsarist prisons, escapes from exile and oratory exercised in stirring the masses . . .
>
> Well trained, well disciplined, politically conscious and active, the Red executive seems a figure permanently established in the seats of the mighty. There is no justification for picturing him as a man in conflict with the Communist Party officials, the two uneasily sharing power for the moment. Rather, the industrial manager and the party secretary are old classmates, neighbors and colleagues, seeing the world from the same perspective.[2]

Long behind in technological knowledge and know-how, Russia—which does not honor patents and copyrights from other countries—is trying to catch up in this field, partially by borrowing or stealing every production technique she can discover.

The United States has much more capital equipment and

the relentless push of the Soviets to narrow this gap helps explain many of their economic policies.

Since capital can be accumulated only when the people of a nation consume less than they produce, Russian leaders have attacked the problem of capital formation in two ways. They have driven their people hard to obtain greater production—and at the same time channeled production into heavy industry by incorporating a system of "involuntary savings" in the price system.

The two methods have been explained by one writer, Charles Thayer, in this way:

> (Stalin drove) workers under fearful conditions into the factories and mines. He prescribed heavy fines for tardiness and jail sentences for absenteeism. Periodically he raised the work quotas and lowered the pay scale.
>
> Stalin's methods caused much revulsion and disaffection not only among the workers themselves but among his colleagues in the party hierarchy, and this was probably the chief justification for the police terror. which he instituted in the early 1930's.
>
> Nevertheless, by selling consumer goods at enormous profits and by levying a heavy tribute on crops, he did manage to gain control of the resources needed to accumulate capital.
>
> Even today profits from consumer goods—obtained by what are in effect sales taxes—provide the bulk of Soviet investment funds. For example, when a $50-a-month janitress in Leningrad needs four yards of cloth for a new work smock she may find that the cheapest cloth she can get is plain, unbleached white cotton retailing for 70 cents a yard. She does not know it, for cost figures are kept secret, but the cotton probably cost the government only 20 cents a yard to produce. The other 50 cents goes to the State for investment uses. Thus for four yards of cotton which costs 80 cents to produce the janitress must pay $2.80, and the $2.00 'sales tax' may end up by being used to finance the extension of Director Krylov's ZIL factory, or perhaps even a rocket factory in the Urals.[3]

With such pressures, capital has been accumulated. Today, both Russia and the United States use modern industrial technology, with automated equipment and machines in large factories and plants.

They both use assembly lines with workers busy at specialized tasks.

What, then, are some of the differences in the way the two countries are attacking the problem of "How to Produce?" How are manpower, raw materials, and capital combined in the production process?

Most important, are there any differences in *efficiency* in the two systems? Before exploring these question, we should clearly understand what is meant by efficiency.

The Importance of Productivity

ANY ECONOMY BASED on money can be shown graphically as a gigantic circular flow.

Such things as labor and capital flow through the production process in one direction as they are converted into goods and services.

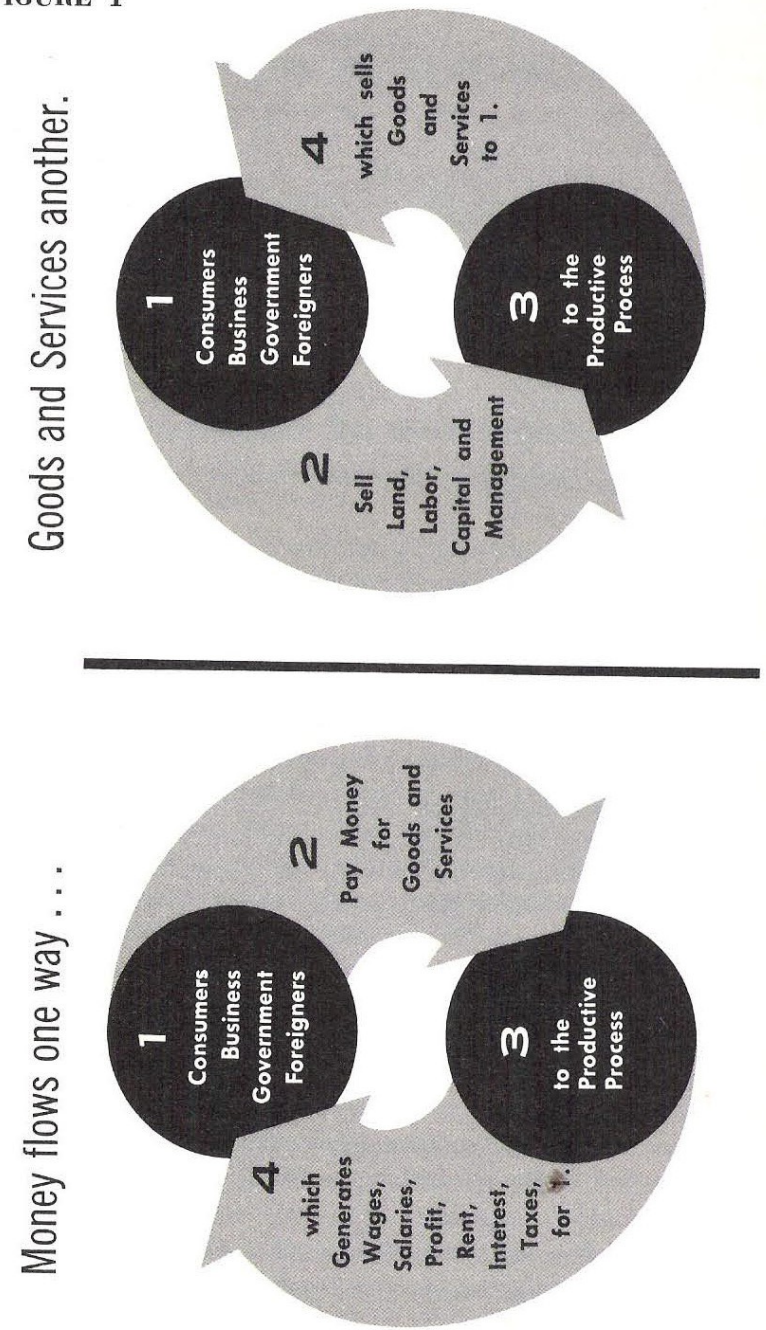
This production generates a stream of money—wages, interest, profits and tax revenues—that flow in the opposite direction, as shown in Figure 1.

As a worker you may build refrigerators for which you receive wages. You use the wages to buy a refrigerator or a house or a car. But if you stop building refrigerators, your income stops, too. In short, the scale of living in a nation depends on a continuous stream of refrigerators and cars and houses and jobs.

One side of the stream (the flow of refrigerators and shoe shines, cars and dry cleaning services) is production or output. The other side of the stream (the flow of money) is income—payments flowing to people in the form of wages, salaries, interest, rents, profits, etc. It represents earnings which are generated by production.

In the United States national income and national product are expressed in terms of dollars; in the Soviet Union, in rubles. But they could be expressed as so many tons of steel, so many automobiles, bushels of wheat, etc., since these are the things that really make up the national product and income.

FIGURE 1


Goods and Services another.
1 Consumers Business Government Foreigners
2 Sell Land, Labor, Capital and Management
3 to the Productive Process
4 which sells Goods and Services to 1.
Money flows one way . . .
1 Consumers Business Government Foreigners
2 Pay Money for Goods and Services
3 to the Productive Process
4 which Generates Wages, Salaries, Profit, Rent, Interest, Taxes, for 1.

Obviously, the total size of the stream of production and its steady flow are both important in determining how well the people in any country live. Especially important is the *size of the stream in proportion to the number of people.* If two men each build one refrigerator a year, each has one refrigerator. If one man can build two refrigerators, and the other two television sets, they can make a trade. Then each will have one refrigerator and one television. Each man has become better off—first as a producer and then as a consumer. If a man produces more in the same amount of time than he produced before we say his *productivity* has increased.

Productivity, essentially, is a yardstick for measuring the efficiency with which manpower, resources, and capital are combined to produce the goods and services we want.

The term can be used broadly or more narrowly. For example, productivity might refer to the total output of the nation as compared to the number of people—the national output per capita. It might refer to the total output for each hour you work, or the total output for every year you work. Regardless of how the term is used, productivity will differ between one man and another in the same factory, between one industry and another, and between one country and another.

The fact that our productivity has increased steadily since the founding of this nation lies at the heart of our material progress. It is increasing productivity that will enable us to live better in the future.

The importance of productivity in improving our scale of living can be well illustrated by developments in the automobile tire industry since 1908.

The employee of a tire factory in 1908 could hardly afford to buy the product he was helping to make.

Tires for a small car cost about $35 each. And since a tire was good for only about 2,000 miles of wear, it meant that it cost about one and three-quarters cents to drive one tire one mile.

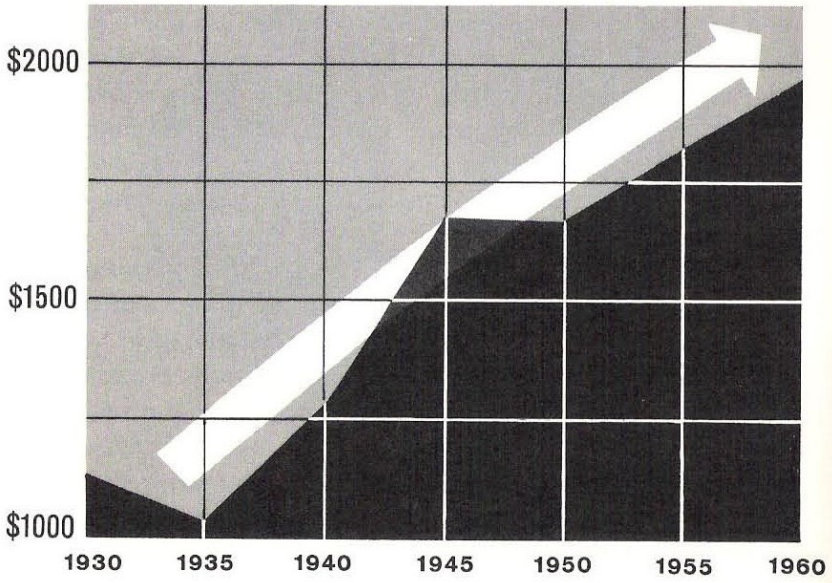
At that time, the average tire factory employee was earning 40 cents an hour. He had to work, therefore, for one hour to pay for only 23 miles of use of one tire.

But by the 1960's the average earnings of tire plant employees

FIGURE 2

U. S. Production of Goods and Services per person 1935-1960

1960 DOLLARS



The production of goods and services for the average person in the United States almost doubled from 1935 to 1960

SOURCE: Economic Report of the President, 1961.

had increased seven times—to $3 an hour. Had this been the only change, a man would still be compelled to work one hour to pay for 171 miles of use from one tire. It's doubtful if he could afford to run an automobile.

However, other things had happened.

Through more efficient production (or increased productivity) the price of a single automobile tire had dropped to $16.95. As a result of research, more and better machinery, more skilled workers, and other changes, the life expectancy of a tire had been increased from 2,000 miles to 30,000 miles.

Thus the hour's work at $3 would not pay for just 23 miles of use, but for 5,310 miles—a 230-fold improvement.

We have seen that the employee's wages had gone up—

from 40 cents an hour to $3—as the tire industry's productivity increased. But, he along with countless others, derived benefits as consumers from the lower price and the longer life of a modern day automobile tire.

Similarly, benefits from increased productivity were gained by the tire manufacturers as their volume of production and volume of sales increased. In fact, the list of those who gained would be long—the suppliers of the tire factories, shippers of raw materials, owners of land where the rubber plants were grown, investors or lenders who furnished the funds to buy better machinery and other equipment, etc.

From the depth of depression in the mid-thirties to 1960 we in the United States almost doubled our *real* national output *per person*. (See Figure 2). Starting from a higher level in 1961 we shall have to hustle to match this productivity record during the next 25 years. So will the Russians.

Productivity in Soviet Russia is increasing, but it is still behind the United States. In Russian industries with high priorities such as military technology, the productivity of the individual Russian worker may be equal to his opposite number in America. In agriculture, it averages only one-eighth of the American, and in some industries, such as textiles, it is even lower. Estimates of over-all industrial productivity per worker vary from less than one-third to about 40 percent of the average American worker.

Production in a Market Economy

IN THE PRECEDING PAMPHLET we saw how forces of supply and demand set prices that give competitive producers signals on *what* to produce. In the same way, forces of supply and demand in the market set prices that give competitive producers signals on *how* to produce.

In our economy everything—raw materials, managerial talent, investment funds and equipment—are priced by the forces of supply and demand. The price of labor is generally called wage

rates. The price of capital is interest. The price for using land owned by someone else is rent.

Because goods and services in short supply will be priced higher than goods and services that are relatively abundant, the competitive businessman in his search for profits is constantly under pressure to improve cost through improved efficiency. The competitive businessman who produces most economically is likely to make the largest profits. He is, therefore, constantly looking for ways to eliminate waste and to cut costs. He is inclined to use less of the more expensive resources and more of the less expensive ones in his production process—always consistent, though, with the nature and quality of the end product.

Businesses fail for a variety of reasons. Some cannot solve technical problems of production. Some don't analyze the nature of demand or hit on the right marketing technique. Some run out of capital. Not everyone is a good manager or executive. What we call "business judgment" is not universal.

Over the long run profits can be earned only by businesses which meet the rigid test of the free competitive market. When a business fails, the consumer is saying, in effect: "You have misused scarce resources."

Profit is sometimes defined as "the return received as a reward for the effective combination of land, labor and capital."

The key word is *effective*. Merely combining land, labor and capital may result in a loss—not a profit.

Production in a Centrally-Directed System

MARX AND ENGELS who laid the theoretical groundwork for Communism left few guidelines for day-to-day operation of an economy after "The Revolution." In their *Communist Manifesto* of 1848 they paid glowing tribute to the productive ability of modern industrial techniques. They asserted, however, that private ownership of capital and the "profit motive" were basic causes of trouble.

Marx argued that the exchange value of any commodity depends solely upon the human labor necessary to produce it. The worker, however, receives only a portion of the value his labor has created. The remainder—the surplus value—is kept by the owner of the means of production. In their insistent push for profits—for more and more of this surplus value—the capitalists (so Marx said) would accumulate more and more capital and the wages of the workers would be kept at a subsistence level. Eventually, when their lot became unbearable, the workers would revolt and overthrow the owners.

As we shall see later, this theory that labor is the source of all value has created many problems for Communists, who have been forced to modify it in practice.

In line with Marxist theory Communist leaders in the Soviet tried to set up a system that would eliminate both private ownership of capital and the "profit motive." Private ownership is seriously limited in the Soviet Union. The Russians can own personal belongings, but, with minor exceptions, business and industry and the tools of capital are owned and managed by the State.

In place of relying on the search for profits among competitive producers to solve the problems of how to produce, the Communists have turned to an involved system of state control and state planning.

The apparent desire of early Communist planners to achieve a total planning process caused many people to believe that the production system would inevitably break down under its own weight. How have the Communists managed to make it work at all?

There is abundant evidence that Soviet attempts to eliminate two major features of our economy—market determination of prices and the search for profits—have unloosed a variety of problems.

These problems have fallen into two broad categories. The first is the problem of attaining enough flexibility in a system of State-controlled production to make it work; the second is attaining efficiency.

The Soviets have achieved some success in producing things the State wanted produced. But there is considerable doubt about over-all efficiency. Moreover, to make their system work they have had to discard many Communist theories.

Attaining Flexibility in the Supply System

THE PRECEDING PAMPHLET described how highly centralized planning, centralized allocation of resources, and the setting of target goals lie at the heart of the Soviet economic system. Within this framework, details are filled in as the plan moves up and down the bureaucratic chain of command. The paper work is enormous.

A basic part of the planning process is what the Soviets call the system of "material balances" which, essentially, is a balance sheet of the supply and demand for a given product.

When these material balances are worked out, norms or goals can be assigned throughout the economy. Individual workers have "norms" or production goals. The State-owned stores have norms set in terms of sales volume that must be met or exceeded each year. All factories have "quotas."

Obviously, if these norms or quotas are set high, failures are inevitable. *Pravda* reported, for example, that between 1951 and 1954, some 30-40 percent of all industrial firms failed to meet the targets of their annual plans. More recently, it was reported that only 19 percent of the firms were failing to meet production goals—but that is still one failure out of every five targets.

In a modern, complex economy mistakes and failures in one area affect other areas. Faulty planning or failure to achieve plans by some production units may have far-reaching repercussions.

Visitors to the Soviet Union and reports in the Russian press have well documented the constant supply problems that exist in the Soviet Union.

Typical is the example in *Pravda* in May, 1960. The newspaper reported that although school movie projectors were being produced, there was a shortage of bulbs.

> "Letters are flooding in to the editors of newspapers, to the national economic councils, to the ministries of education, to the enterprises concerned with the installation of projectors in schools . . .
>
> "Kiev Kinap Works makes the projectors, but the bulbs for them are made by the Moscow Electric Bulb Works. In the "assembled state" each projector is assigned two "K-30" bulbs and three "K-29" bulbs. And that is all. Don't ask for any more! Once these are finished you will not find any more on sale . . . One little bulb burns out and the wonder-machine becomes worthless."

In the same speech in which Khrushchev claimed that butter production per capita was greater than in the United States, he complained that Omsk had no butter in its stores, and that milk and butter shortages were reported in Kharkov, Rostov, and other areas.

In January 1961, *Business Week* reported:

> The principal obstacles to Russia's plans are the inefficiencies in its own economy. They're more serious than you might expect . . .
>
> Take the staggering amount of unfinished construction, for instance. This results from late deliveries and spot shortages of labor and supplies, among other things. A year ago, there were 400,000 uncompleted projects: press reports indicate no improvement since then . . .
>
> Slow construction often results in expensive equipment being delivered but left uninstalled for months or even years.[4]

Problems created by state planning failures undoubtedly help explain the constant conflict between the forces pushing toward centralization of control in the Soviet and the forces pushing toward decentralization. In fact, a major reorganization of 1957 was initially thought by some to be a move in the direction of decentralization.

Prior to the move, economic control was exercised vertically through a system of Ministries. The Ministry of Iron and Steel, for example, would oversee the production of iron and steel throughout the country.

One trouble with this system, Khrushchev complained in 1958, was that "a Minister had to be greater than God because he had to know everything and see everything that is done for example in Sakhalin, Kamchatka, Baku, or Armenia."

In the 1957 reorganization, therefore, many of the Ministries were abolished and many aspects of control shifted to more than 100 Regional Economic Councils *(Sovnarkhozy)* which were placed in charge of many different types of industries in their geographical areas.

Although the Economic Councils which replaced many of the Ministries have some authority to reorganize industrial production in their area, to help in the drafting of regional plans and to pass on ideas to higher authorities, most experts would agree with the writer who said that "what was done in 1957 at both the top and bottom levels of industrial administration was intended to remedy weaknesses in the system of central direction of industry and not in any sense to weaken central direction itself." [5]

As a result of their unwillingness to decentralize control in any real sense, top Communist planners have tackled the problem of flexibility in other ways.

A major method for coping with plan failure is constant and continuing revision of plans. Another way is through the priority system described in the preceding pamphlet.

Establishment of this priority system has been of material assistance to the Russian controllers. Certain key items are given top priority. If problems arise in the production of these items, supplies can be channeled into their production at the expense of non-priority items.

Two aspects of the Soviet society have helped make this priority system effective. First, labor has been more abundant than capital equipment. Thus labor-saving devices which absorbed materials could be given up without materially affecting production. Plant managers could often use additional labor to maintain production when they failed to receive machinery which they had expected.

Second, since consumer goods and agriculture have been given low priority, scarce resources could be channeled from these areas into heavy industry and transport when national plans were faulty.

Flexibility in the Soviet system is also achieved in other

ways. For example, the administrative burden in two broad areas—manpower and the distribution of consumer goods—is materially reduced by permitting some elements of the market to exist.

Although manpower has some limitations in its movements, it is generally responsive to the pull of wages. The State-set wage structure therefore can be used to channel workers into needed areas.

Permitting consumers to buy what they can find available at a price they can pay has permitted the Soviet planners to escape the problems that would be involved in a complicated system of ration cards or priorities.

Some production and distribution also takes place outside central control channels.

The "Pusher"

STILL OTHER IMPORTANT features of the Russian economy are the "informal" arrangement between factories, and the employment of special supply expediters called *tolkachi,* or "pushers."

Russian planning is detailed, but there is inevitable "slack." Managers of firms work various "informal" arrangements with other firms to their mutual advantage. While such arrangements are illegal, the Government apparently condones them.

The function of the "pusher" has been described by Dr. Joseph S. Berliner:

> 'The most interesting of the techniques used by managers to 'secure' their supply of materials is the employment of supply expediters called *tolkachi* or 'pushers.'
>
> The table of organization does not provide for this occupation, yet so great is the need that firms manage somehow to employ these people.
>
> The chief job of the expediter is to make sure that his enterprise gets the materials it needs and when it needs them. Accordingly, he spends most of his time on the road, visiting his enterprises' suppliers, handing out little gifts here and there to assure that his orders are well-handled, picking up supplies of one kind or

another that his firm may be able to use or trade for other goods. Much of their activity is associated with the black market, that is, obtaining materials for which no allocation order has been issued. This may be done either by wrangling an allocation order out of a reluctant government official by one means or another or persuading an approachable enterprise official to sell him the things he needs without an allocation order.

Some *tolkachi* take up permanent residence in the city in which the chief suppliers are located, and only occasionally return to their home firms for consultations. To keep the record clean, they are carried on the books as 'senior buyer' or 'supply agent' . . .

Nothing is known of their incomes, but there is no doubt they earn many times their base pay. And they fully earn it, both because of the vital nature of their work, and because the risks they take make them vulnerable to prosecution.' [6]

The "Economic Accounting System"

SUPERFICIALLY, THE MANAGER of a Soviet plant operates in a manner similar to his counterpart in the United States. The Soviet firm "buys" its materials, in most cases directly from the producer. Money is transferred through banks. Contracts are drawn between buyer and seller and these contracts are enforceable in courts of law. Wages are paid in money and products are "sold." In short, there is an "economic accounting system."

Quite apart from the administrative advantages that the "economic accounting system" may have, it is significant for another reason. *It indicates that, contrary to Communist theory, the leaders of the Soviet Union have been forced to introduce a cumbersome substitute for the automatic forces of competition into the economy.*

Through the accounting system, the difference between costs and income can be readily calculated and the "profit" determined for a plant. The amount of this profit affects the manager's bonus as well as the premiums and rewards given to employees.

Basically, of course, the system is far different from our

market. Most importantly, prices are not set by market forces but by the State, and the plant manager has no control over them. Moreover, having money available does not necessarily entitle a manager to buy major supplies. He must also have an authorization from the government.

As we have seen, a major difference, too, lies in the fact that Soviet production is guided by directives from higher authorities. The amount of detail covered in these directives may vary, but essentially they will contain a production quota.

Weaknesses in the Soviet System

MANY OF THE STORIES of inefficiency and waste coming out of the Soviet Union are related to the problem of "how" to produce.

In the United States production is guided primarily by demands of the consumer. Production, in a very real sense must be for "use." No one can make a profit by producing "unusable" goods.

A basic battle-cry of socialism for 100 years has been "production for use, and not for profit." Interestingly enough, as Jay Lovestone, of the AFL-CIO, has pointed out:

It is precisely in the U.S.S.R. where socialism is allegedly established and the building of Communism is proceeding apace that production for use continues to take a back seat. The quantity of consumers' goods and the housing now available are so inadequate and shoddy that Khrushchev has had to issue a special decree promising improvement . . .

The primary purpose of Communist production is not to provide consumer goods, housing and the material base for cultural enrichment. The motivating force of Soviet economy is the strengthening of the Communist dictatorship and its oppressive powers at home and aggressive powers abroad.[7]

Despite the existence of paper "profits" in their economic accounting system, the Soviet leaders in their "production-for-power" drive have been far more concerned with the achievement of State-set production targets than with this measure

of efficiency. When bonuses for managers are dependent primarily on fulfillment of a target, strong pressure is created to "cut a few corners."

Production guided by a system of priorities will inevitably move forward at an uneven pace. Items with high priority may move through the production process at a fast clip; goods with low priority may move slowly. In either case, there can be waste. Moreover, the end result may be that low-priority items in turn become critical and priorities must be shifted.

For example, pencils might be given a low priority. Then, one day, the planners are assailed with reports that no pencils are available anywhere. Pencils must be boosted up on the priority list, and some other product pushed down—until it, too, becomes in short supply.

Somewhat apart from this over-all problem of waste and uneveness are other problems that arise from management effort to achieve targets.

It is important, for example, that central planners have as accurate information as possible about the productive capacity of enterprises. But if the manager reports his full production capacity and something goes wrong, he and his staff will lose their bonus. He may, therefore, report a smaller capacity than actually exists in the hope of obtaining a low production quota, which he can overfulfill. Russian individuals call this "insurance" or "security."

Again, after the target has been set the manager may find that he is running behind schedule. An endless number of devices are used by managers to meet—or to appear to meet—their target.

If the target is expressed in tons, for such products as metals, the production of lightweight special and quality metals might be curtailed in favor of production of heavier products.

If the production target is set in "running meters" as, for example, in textile production, there is a tendency to overproduce narrow-width cloth and underproduce wide-width cloth.

If the target is set in rubles, firms tend to overproduce high cost products.

In a system in which managerial and engineering management receive no bonuses if they produce 99 percent of their quota but a bonus of from 20 to 30 percent of their salary if they produce 100 percent, there is an understandable temptation to "doctor" the production report. One way this is done is to report as produced during the month goods that are expected to be produced next month—that is, to "borrow" from next month's production.

The Soviet press has made clear that falsification of reports and records is a major problem.

Even more troublesome to the average citizen than falsification of reports is the deterioration of quality. Visitors to the Soviet Union generally comment on the low quality of the merchandise that is offered for sale as well as on the shortages that exist. They are almost uniformly amazed at the low quality of most construction—outside of the public "show areas." Soviet consumer goods are notoriously poor.

The extent of quality deterioration depends both on the adequacy of supplies and upon the pressures being placed upon the plant to meet its quota. But it does take place and much of it is hard to detect, since it involves such things as fewer stitches in a suit of clothes, more impurities in metal, etc.

Managers of Russian plants constantly battle for supplies. Some of this results from the complex planning system; some results from failures of other firms to produce supplies on which they were depending. In addition to the use of "pushers," the plant manager searches for supplies in other ways. He may over-order in the hope of getting what he needs. If his padded requisition is accepted, he may build up a hoard of supplies. Such hoarding is a constant problem for Soviet authorities.

Some of this hoarding problem stems from the natural tendency to be prepared but the problem is compounded by the theory that labor is the source of all value. Interest is not paid on capital equipment and no depreciation charges are made if the machine is not used. As a result, managers are tempted to take anything they can get. If they can't use the supplies or equipment perhaps they can be traded.

Premier Khrushchev discussed the problem bluntly in connection with the dissolution of the agricultural machine-tractor stations:

> The machine-tractor stations accept any machine whether they need it or not. They don't grow flax, but they take flax-growing equipment. They don't grow cabbage, but they take cabbage-planting machines. Consequently, many machines are not used for years and hundreds of millions of rubles worth of State resources are frozen.

Perhaps in the hope of spurring on his countrymen to "surpass the United States," a Soviet economist pointed out:

> In order to increase his profit as much as possible, the capitalist strives to use his equipment to the fullest extent possible, and in no case will he buy a machine that he doesn't need at the moment, since every surplus machine slows down the turnover of his capital and reduces his profit. For the same reason he strives to keep his inventories down to the very minimum and to market his finished product as quickly as possible.

Another serious problem in the Soviet system is the introduction of new techniques, new equipment. Many comments on this problem in Soviet literature make clear the importance the authorities attach to it.

The hesitancy of a Soviet manager to accept innovation apparently stems primarily from a natural reluctance to interfere with a functioning system. If his production line is going smoothly, why should he lose time retraining workers to operate new machines and in ironing out the "bugs" in the new process? If production is slowed so that he fails to meet his target, he may lose his bonus—particularly if the target is raised in line with the rated capacity of the new equipment. He may feel it considerably safer to repair or rebuild old machines rather than to replace them with new, more complicated equipment.

Moreover, Soviet policy is to shift managers from plant to plant every few years. As a result many of them develop a short-range viewpoint. Because the real benefits of a change in technology may not develop for several years after its introduction, the manager is tempted to ignore possible long-range improvements.

Agricultural Production

THE FAILURE IN Soviet agricultural production will be discussed more fully in Pamphlet 4 *(Who Gets What)*. But any discussion of production would be incomplete, without pointing out that in agriculture Communist theories have suffered some of their most crushing defeats. Attempts to substitute State-direction for the initiative of individual farmers have resulted in one food crisis after another.

The idea of a "capitalistic farmer" owning his own land, of course, runs counter to Marxist theories. Stalin forced the peasants into collectives—but with incredible cost in human lives and suffering.

Rich peasants, called "Kulaks," who owned land, equipment and who hired labor were "liquidated" as a class. Millions were exiled to Siberia or shot. Using unparalleled brutality, Stalin forced peasants into collective farms (*kolkhozes*). These collective farms were so badly organized and the peasants so uncooperative that the 1932 crop was far below average. Stalin took what he needed for the cities and left millions to starve in what has been called "the worst man-made famine in history."

Since Stalin's death, agricultural policies have been modified drastically. Production has gone up, but the increase is due largely to an increase in cultivated acreage. Individual productivity is still far below that in the United States where agricultural output per man-hour after World War II has been phenomenal.

System Operated by Determined Men

EVIDENCES OF inefficiency abound in the Soviet production system. But these evidences must be evaluated against warnings such as the one issued by Hans Heymann, of the Rand Corporation:

> In spite of the weaknesses and irrationality, in spite of the shoddy physical aspect that so repels the visitor, the Soviet economy remains a formidable competitor, a competitor not in the field

of efficiency or sophisticated problem-solving, but in the area of consistent, single-minded pursuit of a set of political objectives which unfortunately are not compatible with our own.[8]

"An inefficient system run by competent, powerful, determined people," says Dr. Herbert Stein of the Committee for Economic Development "may still produce results."

How the Market System Promotes Progress and Efficiency

THE SEARCH FOR PROFITS in competitive markets underlies our efficiency and our mass production techniques. Mass production grew out of a basic principle of American business: more profits can be obtained by selling more products to more people at a lower price than can be obtained by selling a few units to a few people at a high price.

Some people have claimed that features of the Soviet system are similar to production in the United States because of the growth of large corporations here. In both countries, individual enterprises are operated by managers who receive a bonus as part of their compensation.

Although it is true that the Communists are now far away from their original theory of "from each according to his ability, to each according to his need," there are still many very real, as well as subtle differences, between the two systems.

Ownership of our corporations is widely diffused among more than 15,000,000 stockholders, and hired managers may receive bonuses for managing the plants satisfactorily. But the mere fact that profits go to the shareholders rather than to the State results in entirely different pressures and motivations in the two systems.

Top managers in the United States are often, if not usually, part owners of the business. Moreover, there are literally millions of independent businessmen in the United States starting new businesses and expanding old ones. *Quite missing in the Soviet scene is the enterpreneur, the individual capitalist, who sees the possibilities in an untried invention, an untested technique, a better way of performing a service—and then pushes it through.*

The absence of innovations—new techniques, new products —is one of the most striking failures of a State-directed Communistic system. The Soviet system has produced almost nothing new; it has relied on "borrowing" the technology and the products of the "capitalistic" world, and then copying them.

Another major difference lies in the price system. A key factor in price-determination in the market is "relative scarcity". Things in short supply generally will be higher priced than things which are abundant. Because producers—guided by prices—tend to use less-scarce materials, more efficient use of resources results. The theory that all value comes from labor has caused Soviet planners great trouble. Soviet prices have been widely criticized—even in the Soviet Union —and some discussion of the importance of "relative scarcity" in price determination is now cropping up.

Improving Productivity

EVERYONE HAS A STAKE in a rising level of productivity. In large measure, the competition between the Soviet Union and the United States is a productivity race. But quite apart from the struggle with the Soviet Union an increase in productivity is necessary if we are to improve consistently the level of living of a growing population.

A well-known writer of American history, Charles Beard, once wrote that if a man who died in 400 A.D. had returned to life 700 years later he would have found little that was new to him.

Since that time, our world has changed tremendously. Even our great grand-fathers would be astonished in today's world.

Actually, the modern upsurge of productivity began with the industrial revolution in England when mechanization was introduced—mechanization which accelerated in this country after the Civil War.

Eli Whitney's cotton gin and his discovery of the principle

of interchangeable machine parts, which made possible the assembly line, were early developments in our mechanization of production.

The accelerated substitution of horsepower and machinery for human brawn was a significant contribution.

Between 1950 and 1955, total output per man-hour—including both agricultural and non-agricultural industries—increased by 21 percent, according to official estimates. During the same period, the horsepower that runs our farm and factory machinery, automobiles, trucks, etc., increased by more than 40 percent.

Although increasing productivity is essential to a better scale of living there are other hard facts in the world today that make efforts to achieve it even more imperative.

Experts on Soviet Russia have pointed out:

> The Soviets are now encountering a serious manpower shortage. This scarcity of hands undoubtedly creates bottlenecks in planning which may compel the Soviets to change their hitherto extravagant use of manpower. . . . The sixth Five-Year Plan came to grief because it was no longer possible to fulfill goals simply by adding new workers to the productive system. The current Plan, with its unprecedented emphasis upon plant modernization, represents a fundamental turn in Soviet economic history.
>
> During recent years, Soviet planners have shown keen interest in automation techniques. At a time when many American labor unions are becoming concerned over the rate of technological innovation in industry, the Soviets, undeterred by any fear of technological unemployment (which they look upon as only a temporary dislocation) are pressing ahead as quickly as possible toward automation. Successes in this area during the Sixties may do more than alleviate their basic manpower problem. They might score against us a quantum jump in the area of industrial productivity, to the detriment of our entire international position.[9]

"History appears to have decreed," says Dr. Walt Rostow, "that, in order to remain a front runner, we shall have to continue to pioneer—in this case to pioneer in engineering

productivity increases along a broad front. And in facing this challenge we should not complain, for a front runner's status is never automatically sustained. It must be constantly renewed." [10]

How Productivity Has Increased

OVER THE LONG-RUN, the American economy has been more productive than any other country. A brief review of the major factors responsible for this increase in productivity may give us helpful guidelines. They include (1) a high rate of invention and innovation; (2) investment in plant and equipment; (3) basic changes in the structure of the economy; (4) investment in education and skill for our people; (5) the development of large-scale production; and (6) the abundant supply of raw materials.

High Rate of Invention and Innovation

OVER THE LONG-RUN, increasing productivity and a higher scale of living depend on a steady flow of new inventions, materials, methods, productive equipment, products, managerial controls and direction. Will future inventions be as effective in increasing our welfare as past inventions have been? It is difficult to conceive of any improvement over radio greater than the improvement offered by radio over the pony express, or of public health gains as dramatic as the antibiotic revolution or anesthesia. And yet the growing attention given research by business and government would seem to indicate a steady growth in the rate of new inventions and innovations. It is probable that the great gains in future productivity will accrue in industries now beginning or not even conceived.

Investment in Plant and Equipment

INVESTMENT EXPLOITS the opportunities created by invention. As we have seen, it is profits, or the hope for profits, that channels funds into investment. Today, three-fifths of corporate investment is financed by depreciation allowances and undistributed profits. Thus, profits have not only induced investment but provided investment funds.

Basic Changes in the Structure of Our Economy

A LARGE PART OF our increase in productivity has resulted from basic changes in the structure of our economy. For instance, great improvements in agricultural efficiency permitted a smaller and smaller proportion of the population to provide all the food and fiber required by the nation.

This increased productivity meant higher incomes for farmers and at the same time city-dwellers were required to devote a smaller proportion of their income to the purchase of farm products.

Increases in agricultural production, therefore, permitted labor and resources that had been used in agriculture to be used in industry and services. At the same time, it permitted income that would formerly have been spent for food to be used in the purchase of manufactured goods and services.

Investment in Education and Skill

THE HISTORICAL SHIFT from a rural agricultural economy to a urban industrial economy resulted in a change in background, education and in skills among our population. Continuing shifts within our economy require further changes in our training and skills.

Unskilled (even semi-skilled) workers are becoming a smaller proportion of the population. Highly skilled workers (administrators, technicians, professional workers) are increasing in numbers as well as in skill. To adapt our skill structure to changing demands will require both good vocational guidance for those entering the labor force, and the investment of time and resources in retraining and upgrading.

Development of Large-Scale Production

A SUBSTANTIAL IMPROVEMENT in productivity has resulted from changes in the size of our plants and industries which have permitted specialization, better utilization of by-products, economies in purchasing and distribution, more extensive research.

Much of the development of large-scale production has come because we have more people with more money to spend.

Moreover, the concentration of the population in large cities permits economies in transportation and distribution costs and in labor recruitment.

The Supply of Raw Materials

IN THE PAST, productivity was promoted by the discovery of new, untapped supplies of raw materials in this country. Although increases in productivity from this source are likely to be less important than formerly, new materials and new uses for abundant materials are constantly discovered. Improved methods are being found for utilizing resources that were formerly considered unusable.

The Basic Question

ANALYSIS OF SOME of the ways in which we have increased productivity in the past, and the need for increasing productivity in the future must be evaluated, however, in the framework of a free nation—which includes competitive markets, consumer choice, and individual liberty.

Mere production and productivity are not necessarily the same. A man may increase his production by working 16 hours a day, but he may, in fact, decrease his productivity per man-hour in doing so. The easiest way to increase shoe production as some Soviet bloc factories learned is to turn out only shoes for left feet, all of the same style and size.

We know that mere production is not the ultimate goal of a free economy. That goal is freedom.

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PROGRESS THROUGH VOLUNTARY ACTION AND FREEDOM

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